

## Message Text

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C O N F I D E N T I A L CARACAS 7651

EXDIS

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TAGS: ENRG VE

SUBJ: MENE GRANDE VIEWS ON OIL NATIONALIZATION

REF: A STATE 178409, B CARACAS 7399

1. SUMMARY: MENE GRANDE (GULF) OFFICIALS RECENTLY PRESENTED A PROPOSAL FOR A "PACKAGE" AGREEMENT ON PETROLEUM NATIONALIZATION TO BE NEGOTIATED WITH THE GOV. THEY DESCRIBED THE GOV REACTION AS FAVORABLE AND BELIEVE IT CAN SERVE AS A BASIS FOR SERIOUS DETAILED NEGOTIATIONS WITHIN A MONTH OR TWO. IT IS EVIDENT THAT THE GOV AND THE LARGER COMPANIES ARE NOW CLOSE TO THE STAGE OF SERIOUS NEGOTIATIONS. END SUMMARY.

2. IN CALL ON AMBASSADOR JUL 22, MENE GRANDE OIL COMPANY PRESIDENT BERNARDO DIAZ AND MEMBERS OF HIS STAFF REVIEWED PROGRESS OF NATIONALIZATION TALKS WITH GOV. AS INDICATED REF (A) MENE GRANDE'S INITIAL INFORMAL PROPOSAL PRESENTED SOME TIME AGO WAS REJECTED BY THE MINISTER OF MINES BECAUSE IT CONTEMPLATED COMPENSATION ON A BASIS OF "GOING CONCERN VALUE" RATHER THAN THE NET BOOK VALUE SET IN THE DRAFT LEGISLATION. DIAZ SAID THAT MENE GRANDE HAS NOW GIVEN THE GOV A SECOND INFORMAL PROPOSAL WHICH OUTLINES THE CONCEPT OF AN AGREEMENT, BUT DOES NOT INCLUDE SPECIFIC "FIGURES." HE DESCRIBED THE PROPOSAL AS A PACKAGE DEAL WHICH WOULD PERMIT THE GOV TO ADHERE TO ITS INSISTENCE ON COMPENSATION AT NET BOOK VALUE, BUT WHICH WOULD BE ACCEPTABLE TO THE GULF OIL CO BECAUSE THE GOV'S PAYMENT FOR THE TOTAL PACKAGE, INCLUDING TECHNICAL ASSISTANCE, MARKETING ARRANGEMENTS, ETC, WOULD OFFSET THE LOWER COMPENSATION FIGURE.

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3. THE MENE GRANDE PROPOSAL WOULD CONSIST OF THE FOLLOWING BASIC ELEMENTS: (1) MENE GRANDE WOULD ESTABLISH A VENEZUEALN CO WHICH WOULD SERVE AS A REPOSITORY FOR ASSETS WHICH MENE GRANDE WOULD AGREE TO TRANSFER AND TO WHICH VENEZUELAN PERSONNEL (WITH CERTAIN EXCEPTIONS) WOULD BE TRANSFERRED. (2) SIMULTANEOUSLY WITH THE TRANSFER OF STOCK IN THE NEW CO TO THE GOV (AND TRANSFER OF THE ASSETS), MENE GRANDE WOULD SIGN A CONTRACT WITH THE GOV FOR THE PROVISION OF ASSISTANCE REQUIRED TO MAINTAIN OPERATING CONTINUITY. THE DURATION OF THE CONTRACT AND THE AMOUNT OF THE PAYMENT FOR THE ABOVE TRANSFERS AND ASSISTANCE WOULD BE DETERMINED BY NEGOTIATION. (3) THE CONTRACT WOULD ALSO COMMIT MENE GRANDE TO PURCHASE AN AGREED QUALITY OF CRUDE OIL AND PRODUCTS AT MUTUALLY ACCEPTABLE PRICES. IN PRINCIPLE, THE AMOUNT WOULD BE ABOUT 280,000 BBL. PER DAY, BUT MENE GRANDE WOULD BE DISPOSED TO CONSIDER TAKING A LARGER VOLUME AT A MUTUALLY ACCEPTABLE PRICE (MENE GRANDE NOW PRODUCES ABOUT 450,000 BBL. PER DAY, BUT A SUBSTANTIAL AMOUNT GOES TO GULF'S PARTNERS IN MENE GRANDE--SHELL AND EXXON.) GULF IS THINKING IN TERMS OF A DISCOUNT ARRANGEMENT ON THE OIL IT TAKES, PERHAPS 20 CENTS PER BBL.

4. ACCORDING TO DIAZ, GULF WILL INSIST ON A SINGLE AGREEMENT (A PACKAGE DEAL) COVERING ALL ASPECTS OF THE TRANSACTION, IN ORDER TO EXERT MAXIMUM LEVERAGE WITH WHAT IT HAS TO OFFER THE GOV- TECHNICAL ASSISTANCE AND AN OIL MARKET. A PACKAGE ARRANGEMENT IS ALSO IMPORTANT TO GULF FOR LEGAL REASONS AND FOR INCOME TAX PURPOSES (GULF WOULD PRESUMABLY CLAIM THAT A SUBSTANTIAL PORTION OF THE PAYMENT RECEIVED FROM THE GOV REPRESENTED COMPENSATION FOR NATIONALIZED ASSETS RATHER THAN INCOME). DIAZ DESCRIBED THE GOV REACTION TO THE MENE GRANDE PROPOSAL AS FAVORABLE AND HE BELIEVES IT CAN SERVE AS A BASIS FOR SERIOUS SPECIFIC NEGOTIATIONS WITHIN THE NEXT MONTH OR TWO. HE BELIEVES THE PACKAGE NATURE OF THE ARRANGEMENT WOULD NOT TROUBLE THE GOV, SINCE IT COULD ATTRIBUT THE PAYMENTS RECEIVED AS IT WISHED BETWEEN "NET BOOK VALUE" AN AYMNS PROVIDED.

5. COMMENT: DIAZ AND HIS STAFF APPEAR TO BE QUITE RELAXED AND RELATIVELY OPTIMISTIC ABOUT PROSPECTS FOR NEGOTIATIONS WITH CONFIDENTIAL

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GOV. HIS VISIT WAS IN THE NATURE OF A COURTESY CALL RATHER THAN AN EFFORT TO ENLIST THE EMBASSY'S SUPPORT IN ANY WAY.

6. DIAZ' OPTIMISM ABOUT GOV WILLIGNESS TO CONSIDER A "PACKAGE" DEAL APPEARS TO BE SUPPORTED BY PRESS REPORTS OF COMMENTS ON THE OIL TALKS BY MINES MINISTER VALENTIN HERNANDEZ. IN AN INTERVIEW IN EL UNIVERSAL ON JUL 23, HERNANDEZ

SAID THAT COMPENSATION OF THE PETROLEUM CO AND THE  
TECHNICAL ASSISTANCE WHICH MIGHT PROVIDE THE VENUZUELAN  
STATE ARE BEING DISCUSSED SIMULTANEOUSLY OR AS A "PACKAGE.

7. IT IS EVIDENT THAT THE GOV AND THE MAJOR COMPAINES ARE  
NOW BEGINNING TO GET DOWN TO SERIOUS BUSINESS IN THEIR TALKS  
(REF B). THERE IS STILL SOME WAY TO GO, HOWEVER, IF A SMOOTH  
TRANSITION TO A NATIONALIZED INDUSTRY IS TO TAKE PLACE BY  
JAN 1, 1976, AS CONTEMPLATED IN THE CURRENT VERSION OF THE  
NATIONALIZATION LAW. ONE PROBLEM THAT SEEMS TO HAVE  
BEEN SCARCELY TOUCHED SO FAR IS THE QUESTION OF HOW  
CRUDE AND PRODUCT PRICES ARE TO BE FIXED. WE UNDERSTAND THERE  
ARE SUBSTANTIAL DIFFERENCES IN APPROACH TO THIS PROBLEM AMONG  
THE MAJOR CONCESSIONNAIRES. FINALLY, AGREEMENTS WITH THE  
LARGE OPERATORS WOULD NOT NECESSARITY TRANSLATE INTO  
ACQUIESCENCE FROM THE SMALLER CONCESSIONNAIRES--A FACT THE  
AMBASSADOR HAS NOTED IN CONVERSATIONS WITH THE MINISTER OF  
MINES AND THE FOREIGN MINISTER AMONG OTHERS. TALKS IN THIS  
QUARTER HAVE ONLY NOW ENTERED THE PRELIMINARY STAGE  
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